

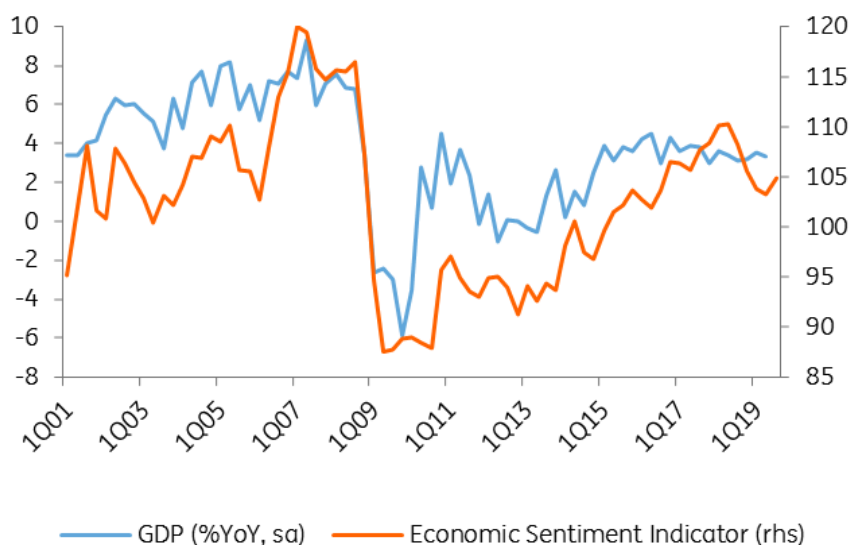
Bulgaria: Sequential GDP growth decelerates

GDP growth decelerated to 0.6% quarter-on-quarter in the second quarter of the year, from 1.2% QoQ previously. This translates to a 3.3% year-on-year growth rate



The flash GDP print was slightly above our 3.0% projection, but this does not change our full-year forecast of 3.6%. On the contrary, we find the risk balance to our forecast tilted to the downside given the weakening external environment. Available flash data point to a balanced underlying picture with acceleration in gross fixed capital formation, deceleration in consumption and a positive contribution from net exports to growth. The economic sentiment index (ESI) recovered at the start of the third quarter driven by all subcomponents except for the construction sector.

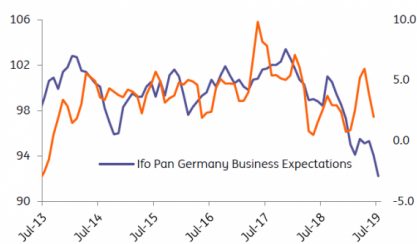
Fig 1 Soft data points point to similar cruising speed



Source: EC, NSI, ING

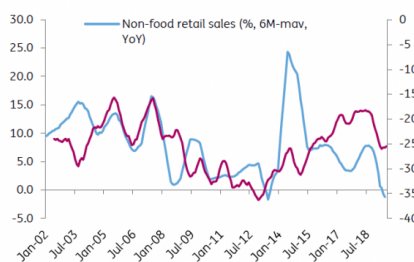
High-frequency indicators are pointing to a challenging outlook as industry contracted by -2.4% YoY in June. Though the contraction for the manufacturing sector was somewhat milder at -0.6% YoY, the external demand doesn't seem like it will stabilise in the near future. At the same time, there are some surprising signs of weakness coming from domestic demand with retail sales increasing by just 0.5% YoY in June vs. 4.4% YoY in 2018, with non-food sales declining by -0.4% YoY vs a 6.8% expansion in 2018. Some positive twist comes from tentative signs of stabilisation from consumer confidence.

Fig 2 No signs of stabilisation from external demand



Source: NSI, Bloomberg, ING

Fig 3 Consumer confidence stabilising to prop-up sales



Source: NSI, EC, ING

Upcoming European Central Bank easing is likely to be swiftly imported in Bulgaria monetary conditions under the currency board FX regime and the strong fiscal balance with a budget surplus of 2.8% of GDP at mid-year offers good prospects to domestic absorption for the rest of the year. Hence, we are not in a hurry to scale down our near-term GDP forecast.

Author

Ciprian Dascalu

Chief Economist, Romania

+40 31 406 8990

ciprian.dascalu@ing.com